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ORIGINAL

1	APPEARANCES (Continued):
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6	FERRY & JOSEPH, P.A.
7	BY: THEODORE J. TACCONELLI, ESQ.
8	and
9	BILZIN SUMBERG BY: SCOTT BAENA, ESQ.
10	Counsel for Official Committee of
11	Asbestos Property Damage Claimants
12	SKADDEN ARPS SLATE MEAGHER & FLOM, LLP
13	BY: MARK FINK, ESQ.
14	and
15	SKADDEN ARPS SLATE MEAGHER & FLOM, LLP BY: BERT WOLFF, ESQ., and
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1	APPEARANCES (Continued):
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8	MORRIS JAMES HITCHENS & WILLIAMS BY: BRETT D. FALLON, ESQ.
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10	and
11	HALE & DORR BY: GEORGE SHUSTER, ESQ.
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13	Counsel for MGI
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15	and
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18	Counsel for the Equity Committee
19	STEVENS & LEE
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22	BY: ROBERT N. MICHAELSON, ESO.
23	(New York, New York)
24	Counsel for American Real Estate Holdings

APPEARANCES: (Continued)

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CAMPBELL & LEVINE 3

MATTHEW ZALESKI, ESQ. BY:

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CAPLIN & DRYSDALE BY:

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PETER VAN N. LOCKWOOD, ESQ.

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Counsel for the Asbestos Personal Injury Committee

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9 ALICE SMOLKER, PRO SE (Los Angeles, California)

and

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Appearing telephonically on her own behalf

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PROCEEDINGS

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(Proceedings commenced at 2:00 o'clock, p.m.)

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THE COURT: Be seated, please. Good afternoon.

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THE ATTORNEYS: Good afternoon.

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THE COURT: All right. We're ready to proceed.

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MR. BERNICK: Yes. David Bernick for the

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debtors, your Honor. If you have the agenda?

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THE COURT: I do.

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MR. BERNICK: Items 1 through 4 have been

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continued. With regard to the uncontested matters, there

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have not been any objections, and we would ask that the

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Court sign the orders that are associated with those

different items. I can tender them up to the Court, if that is satisfactory.

THE COURT: That will be fine. Pass them to the clerk, and we'll get them signed for you.

(Documents passed forward.)

MR. BERNICK: That brings us to item 7 and item 8, kind of takes us back to the beginning of the days. Your Honor will recall we came in to describe the history of how the debtor came to file for Chapter 11, the surgeon claims that had taken place and we then identified the central issues we felt had to be resolved in order for this case to progress. I believe your Honor recognized it in connection with an early hearing that litigation was going to be integral to this case and that the sooner there can be a proposal before the Court on exactly how that litigation would proceed, we could then end up with kind of a blueprint for how to go forward.

There was the comment your Honor made at the end of the hearing in May. We took that suggestion by the Court to heart and we put together very promptly a proposal for each of the different tracks of litigation that we think are central to this case, and we conveyed those proposals to the other side and we've also had meetings along those lines. I think we actually noticed up the first hearing on that for July.

1 There was then a request by the property damage 2 committee as well as the bodily injury committee to have the 3 matter put over to the early part of August, which was done, 4 but then the property damage committee asked for still more time. Your Honor, I don't know if your Honor will recall our opposition to that and our desire to move forward with this 6 case and get the litigation process underway. Your Honor 8 ultimately accommodated the request of the property damage committee and the result was that this really critical feature of the case was put over to a hearing that was to be 10

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scheduled in October.

Obviously, that hearing didn't take place so we're now kind of, to be blunt about it, your Honor, we're kind of dead-in-the-water on moving forward on the litigation side of the case so this Item No. 8 is of critical importance to the debtor. We think that the briefs that have been submitted in opposition to it lay out a series of issues. We're prepared to and will be addressing those issues in what we think will be a very comprehensive reply brief. And I think that with those papers, your Honor, will have a very comprehensive view of what the debtor believes is the proper procedure envisioned for how to proceed with this case, and we can take up that matter and then really end up moving forward in a productive way in this case.

So we would ask that No. 8 be scheduled for a

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hearing as soon as possible so that we can get on with the business of litigating those issues and maybe at the end of the day also reaching a plan of reorganization, but we would ask for a very prompt hearing on that matter. I think your Honor asked last time how much time would be required for that. I think what we proposed was two hours. I know that we would be calling one witness on the notice issues, perhaps the objectors would be calling their own witnesses, but I think we can dispose of it in two hours, recognizing the briefing has been very extensive.

THE COURT: All right. Does anyone else wish to be heard on this schedule of Item No. 8?

MR. BAENA: May it please the Court, Scott Baena on behalf of the official asbestos property damage committee. Your Honor, good afternoon.

THE COURT: Good afternoon.

MR. BAENA: Judge, the comments by counsel accurately summarize the history of this. I do want to underscore though that we have indeed now briefed the issues that were framed by their original motions, and I would also add that while counsel characterizes this as the litigation side of the case, the case management proposals by the debtor implicate fundamental bankruptcy issues as well, including the establishment of the bar date and notification program and issues concerning the estimation of claims.

At this point in time, your Honor, we are indeed ready to proceed. I'm not sure though that I share counsel's optimism about being able to complete that exercise in a two hour period of time. Frankly, I think it will be more like a half day, if not more.

THE COURT: All right. Does anyone else wish to be heard?

MR. LOCKWOOD: One very minor point, your Honor, Mr. Bernick, in his presentation, mentioned that the debtors had some intention of filing a reply brief. The opposition to this brief were filed on September the 10th. It's now November the 5th. The debtors have had two months to file a reply brief. If they're going to take such a leisurely approach to this, my only concern is I would like to have there be a sufficient lag between the time that we have the hearing and the time we get their reply brief so we could at least be prepared to orally respond to it at the hearing. So if your Honor, as part of the scheduling, could set a date for the filing of that reply brief that would create that window for us, I think that would be appropriate and fair. Thank you.

THE COURT: All right. We have available the afternoon of November 21st, commencing at 12:00 noon, and we also have available December the -- I wrote down the wrong date, actually. November 21st or December the 19th. You

can confer with each other and pick whatever date you want, whichever of the two days you would rather have.

MR. BERNICK: We'd very, very much like to have the November 21st date just because that would be another, basically a month slippage if we went to December. And in fairness to Mr. Lockwood's point, we would be filing the reply brief probably before the end of this week in any event so there would be more than adequate time for him to prepare his response to that. So we would ask the Court to set November 21.

THE COURT: All right. Do you agree on November 21st?

MR. BAENA: We would be prepared, your Honor. If I may inquire?

THE COURT: And you will have your half day then.

MR. BAENA: Yes, sir.

THE COURT: You could have your half day that day.

MR. BAENA: Yes, sir. If I could just inquire of the Court, there is, the case management proposal as it was framed by the debtor included a separate track for transfer claims which you heard about several times in the course of this case. The property damage and bodily injuries committees have jointly made two motions in respect of the fraudulent transfer claims and my question is whether that

would also be heard on the 21st. 1 2 THE COURT: No. The fraudulent transfer claims, 3 I'm taking a different view of those, and I'd like to get 4 in place the initial bar date and some of these other 5 matters, but we would hear it before the end of the year. MR. BAENA: As to who will prosecute them? 6 7 THE COURT: That's correct. 8 MR. BAENA: That's the motion that is pending? 9 THE COURT: Yes. MR. BAENA: So we'll come back? 10 THE COURT: And we're on the agenda for that. 11 12 Today, I was going to discuss it. 13 MR. BAENA: I didn't mean to preempt you. 14 THE COURT: No, I understand your question, but 15 we wouldn't be able to get it done on the 21st. I think there is some sequencing, at least in my mind, but we will 16 definitely get them done before the end of the year. 17 18 MR. BAENA: Maybe we can use the December 19th 19 date for that. 20 THE COURT: If you want to. MR. BAENA: Okay. November 21st at noon. 21 MR. BERNICK: Terrific. 22 THE COURT: For Item 8. 23

MR. BERNICK: Item No. 9 is the items that

counsel just referred to. It's the joint motion for

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authority to prosecute. I think that the Item No. 10 is 1 2 again part and parcel of the same issue as the motion to 3 employ counsel, in connection with the same matter. 4 THE COURT: All right. We can put that on 5 for the 19th as counsel suggests. And I'll set some time allocations. But if you can agree on the 19th of December, 6 7 we can. MR. BERNICK: No problem. 8 9 THE COURT: December 19th for Items 9 and 10. 10 MR. BAENA: Your Honor, can we have a time on that one? 11 THE COURT: We're going to start that at -- well, 12 we can do it at 9:00 or 11:00 o'clock in the morning to start 13 it. 14 (UNIDENTIFIED SPEAKER): 11:00. 15 THE COURT: 11:00. Did somebody say 11:00? 1.6 (UNIDENTIFIED SPEAKER): 11:00 would be 17 appreciated, your Honor. 18 THE COURT: 11:00 o'clock. 19 20 MR. BAENA: Is that an hour, judge? THE COURT: No, I'm going to set a time 21 allocation for that. It's not an omnibus hearing. The 22 omnibus is limited to one hour but I'll give you a time 23 allocation for the 19th, as I will for the 21st, in the order 24

I'll release setting those dates, but I'm mindful that it may

be a little more than the debtors two hours and a little less than your half day.

MR. BAENA: Thank you.

MR. BERNICK: I believe that brings us to Item 11. Item 11 was filed roughly I think as the original request for authorization to proceed with the fraudulent conveyance claim. The matters have been briefed and we're prepared to take that up at an appropriate point in time. From our point in view, there is no particular urgency to it. It basically deals with the preservation of evidence. That is something we've already assured counsel is already in place as to whether there is a depository created or not. Our own view is that it ought to be tied to whatever the litigation procedures are that the Court ends up approving so it is not a priority item from the debtors' point of view. We are nonetheless prepared to proceed with that argument at the Court's convenience.

THE COURT: Does anybody wish to be heard?

All right. We'll get you a date on that which I will issue in an order after this hearing.

MR. BERNICK: Fine. The last item, actually
No. 12 under this category, is the motion for relief from
automatic stay. Again, to refresh the Court's recollection,
this is really part of a broader area that has been the
subject of motion practice. We originally filed a motion

for preliminary injunction. The preliminary injunction was 1 2 There was a request to modify the preliminary injunction. That was argued before the Court on the 21st of 3 June, and because of issues that came up with that, we filed some supplementary materials on the 27th of June. But that broader motion for modification of the preliminary injunction has been fully briefed, argued and has been submitted to the Court. I don't believe, I know your Honor has not yet had an opportunity to turn to that and rule.

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This particular item is one part of that broader area. And again, we're prepared to take it up at the Court's convenience, although frankly we believe that the matters and issues relating to the Smolkers already have been thoroughly briefed and heard already. And I think one of the Smolkers may be on the telephone to address that with the Court. is a matter of some urgency to get a decision on the motion to modify with respect to the Smolkers in particular. That also is something that we'd like to have resolved at soon as we possibly can.

THE COURT: Does anyone wish to be heard?

MS. SMOLKER: Yes, your Honor. This is Alice

Smolker in Los Angeles. Can you hear me?

THE COURT: Yes.

MS. SMOLKER: Hello?

THE COURT: Yes.

MS. SMOLKER: Hello? Your Honor, can you hear 1 2 me? All right. I think the phone is going in and out 3 4 so please let me know if you need me to repeat something. 5 My understanding is that the motion to modify the preliminary injunction should not apply to the remainder of 6 7 the TIG vs. Smolker action that is now ready for trial in Los Angeles because the Bankruptcy Court has already ruled that 8 9 the Bankruptcy Court has no jurisdiction over the action that applies to parties other than Grace. So I believe what is 10 11 before the Court today is this motion for relief from stay as it applies to the Grace entities. I understand the agenda 12 13 referred to scheduling this matter, but my understanding was that the hearing was to be today rather than a scheduling 14 hearing. Am I correct in that? May I go forward and argue 15 16 the motion? THE COURT: Well, you don't need to argue the 17 motion because I have it under submission, unless you wanted 18 to present evidence. Then we have to schedule a hearing. 19 That is the issue today. 20 MS. SMOLKER: Whether you need to schedule a 21 22 hearing for evidence?

THE COURT: That's correct.

everything that we need to do. It includes a declaration

MS. SMOLKER: I think our moving papers set forth

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1 which would be our evidence.

THE COURT: All right. So then there is no need for this contested matter to have any further hearing and we'll issue a decision.

MS. SMOLKER: All right. Thank you, your Honor.

THE COURT: All right. Thank you.

Do you want to move to the next item?

MR. BERNICK: I think the next two items are contested matters, Nos. 13 and 14. I think Mr. Carickhoff will be arguing those to the Court.

THE COURT: All right. Thank you. Give me one second, please.

All right. I'm sorry. Go ahead.

MR. CARICKHOFF: Good afternoon, your Honor.

David Carickhoff of Pachulski Stang Ziehl Young & Jones on behalf of the debtors.

THE COURT: Good afternoon.

MR. CARICKHOFF: Items 13 and 14 relate to lift stay motions. Item No. 13 was filed by the debtors and 14 was filed by Honeywell international. Essentially, the debtors and Honeywell are seeking to lift the automatic stay as it relates to certain environmental remediation litigation in New Jersey District Courts. Honeywell has filed a response to the debtors' motion essentially seeking — there are two separate actions. One is called, we refer to in the

1 papers as the "ICO matter" and the other we refer to as the "river-keeper matter." They have substantially similar 2 3 claims in both cases and each of the two matters have been 4 consolidated in the New Jersey Court. So essentially 5 Honeywell has argued that if the debtor seeks to lift the 6 stay in the ICO matter, it should be lifted as to the 7 river-keeper matter. 8 The parties have reached a stipulation that we 9 would like to submit to the Court that essentially lifts the 10 automatic stay to allow the ICO matter to go forward in its 11 entirety and to allow the river-keeper matter to go forward, 12 to the extent that the claims in the river-keeper matter are

the same as those claims that are set forth in amended

complaint that was filed in that action. And if I could

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THE COURT: Yes, will you pass that up.
(Documents passed forward.)

MR. CARICKHOFF: I don't know if your Honor has any other questions.

THE COURT: Not at this time.

MR. CARICKHOFF: Thank you.

THE COURT: Thank you.

submit that stipulation to the Court?

All right. Is there anything further?

MR. BERNICK: No, your Honor.

THE COURT: All right. Before we recess, I

wanted to put on the record that in the past 30 to 40 days or so, several judges as well as numerous litigants have called chambers to either request what is going on in the matter or to provide their view of what ought to go on in the matter and to I guess get some understanding of how this case will proceed beyond the issues that were on the agenda for today. I haven't spoken to any of them and won't.

I have spoken to Judge Weiner in the Eastern

District of Pennsylvania, given his role as the judge assigned all the asbestos cases in the federal courts. I have spoken to him on two occasions to have some understanding of the underlying litigation that brings this debtor not specifically but in a general way into Chapter 11. I don't think that there is anything about the phone calls that is improper but if it's helpful to know that I won't get on the phone with judges from the state courts or from other jurisdictions, maybe that can go back out there. I do intend to talk with Judge Weiner at least on one additional occasion, probably sometime toward the end of the year, the beginning of the year of 2002.

And the second point I wanted to put on the record is there is some question whether the case would stay in the District Court or since the District Court had returned the automatic stay, put the automatic stay back in place, whether this case would be returned back to the

Bankruptcy Court. It's been decided this case and the Armstrong case will remain in the District Court and, for the time being, with me.

Okay. Is there anything else?

MR. BERNICK: No, your Honor.

THE COURT: Mr. Grey?

MR. GREY: Your Honor, Joseph Grey from Stevens & Lee. Your Honor, I represent American Real Estate Holdings
Partnership. We filed an adversary complaint in an emergency last week. I understood from chambers that the Court had agreed to hear it at this time.

THE COURT: I had told them that I would agree to schedule it at this time, but I'm not prepared to hear it, although I've seen the motion to shorten notice and review the papers that were in. We can get you on in short order but we weren't able to do it today because we have this hearing and Armstrong. Do you want to discuss when you would be available to do it? I'm prepared to do it in short order but not at today's hearing.

MR. GREY: What I would like to do is turn the podium over to my co-counsel, Robert Michaelson. He is with the firm, Kirkpatrick & Lockhart. This has been done quickly. I haven't had a chance to file his pro hac papers.

THE COURT: I'll grant the application.

Mr. Michaelson.

MR. MICHAELSON: Thank you, your Honor. We're prepared on short notice to appear for this before this Court and to argue the issues that were raised in our motion. And I have no particular days that are a problem for me during the month of November except for November 30th. And if we could do it during the month of November, that would I think be of benefit to everyone in this case. There is a motion on January 5th which relates to the property which is the subject of the relief we're discussing here, and it would be in everybody's interest to have this matter heard and decided prior to that date.

THE COURT: All right. Yes.

MR. KAPP: Your Honor, James Kapp on behalf of the debtors. We would point out counsel does speak correctly the motion is set for January 3rd. Their expedited motion, basically this underlies their motion. That motion is only set for scheduling on an omnibus hearing. Again, the debtor is basically between two warring parties, the landlord and the sublessee. This gives the parties time to negotiate and take things forward. I'm not sure an expedited schedule is needed. I have a feeling that time might be helpful for the parties to talk so I'm not sure this needs to be heard on an expedited basis.

MR. MICHAELSON: Your Honor, the only reason for hearing it on an expedited basis is this goes to the root of

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what we're here to discuss. And I realize you have limited time today so I won't take too long.

An order was entered on June 22nd, dated June 22nd of which my client did not have notice, of which were mentioned in the order a very important paragraph. It affects our substantive rights. We want to make sure, given the fact our due process rights were violated, that nothing happens with respect to that provision of the order pending your determination as to whether that was properly entered and whether the question should be revisited.

MR. KAPP: Your Honor, under the terms of your prior order, now that we have filed our motion seeking to have the lease assumed and assigned, nothing will happen until that motion is heard. So counsel's concerns are protected until that motion is heard before this Court.

MR. FALLON: Your Honor, Brett Fallon. Since we're talking about the landlords interest as well, I thought we would jump in. I'm going hand the podium over to George Shuster of Hale & Dorr, and we have moved his admission pro hac or are about to.

THE COURT: All right. Thank you, Mr. Fallon.

Mr. Shuster.

MR. SHUSTER: Good morning, judge.

THE COURT: Good morning.

MR. SHUSTER: MGI, who is the sublessee in this

matter, shares the position of the debtor that the issue on whether or not the motion to assume and assign will be granted or denied is the same issue as whether or not the June 22nd order should be vacated in whole or in part or other relief is available to American Real Estate Holdings, so we would be satisfied with putting both matters off until January 3rd.

THE COURT: As I understand it, with the debtors' representation there will be no action under the June 22nd order, you're willing to forego an expedited schedule with that assurance until we hear the motion?

MR. SHUSTER: That is correct, your Honor. The only caveat to that is we believe the relief we're discussing here necessarily needs to be addressed prior to the motion to assume and assign. Even if it's by a moment, it still needs to be addressed first.

THE COURT: Okay. Then we'll put this on for January 3rd at 9:30, which is the same time as the principal motion is to be heard. And I'm not going to guarantee what the order will be, but at a minimum they will be heard simultaneously. And if there is an order to the decision that is required, we'll implement that.

MR. SHUSTER: Thank you, your Honor. Your Honor, American Real Estate Holdings also filed an adversary complaint in the matter, and I ask that you provide that the

1	adversary proceeding be stayed until such time as the January
2	3rd proceeding can go forward.
3	THE COURT: The debtor has no objection so we'll
4	do that.
5	MR. SHUSTER: Thank you.
6	THE COURT: If you to submit an order that
7	accomplishes that, I'll be happy to sign that.
8	MR. SHUSTER: I'll do that. Thank you, your
9	Honor,
10	THE COURT: All right. Is there anything else?
11	This Court stands in recess.
12	(Hearing ends at 2:27 p.m.)
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17	I hereby certify that the foregoing is a true
18	and accurate transcript from my stenographic notes in the proceeding.
19	From Doffrigan,
20	Official Court Reporter U. S. District Court
21	o. o. District Court
22	